

Message Text

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ORIGIN EB-07

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FM SECSTATE WASHDC
TO AMEMBASSY OTTAWA IMMEDIATE

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E.O. 11652: N/A

TAGS: ENRG; CA

SUBJECT: CANADIAN GAS EXPORT PRICES

REF: STATE 121548; OTTAWA 4333

1. DURING JUNE 9 CONSULTATIONS IN CANADA, CANADIAN SIDE, LED BY EMR DEPUTY MINISTER MCNABB, INDICATED GOC IS CONSIDERING TWO ALTERNATIVES FOR PRICING 1977-78 GAS EXPORTS TO US: (A) NEB RECOMMENDATION OF \$2.25 (US) PER MCF, A FIGURE BASED NOT ONLY ON COST OF ALTERNATIVE ENERGY (IMPORTED OIL) IN EASTERN CANADA, BUT ALSO ON SUCH FACTORS AS LEVELS OF EMERGENCY GAS PRICING IN US DURING PAST WINTER AND OTHER UNSPECIFIED FACTORS; OR
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(B) A FIGURE OF APPROXIMATELY \$2.16 (US) MCF, BASED ONLY ON COST OF ALTERNATIVE ENERGY IN EASTERN CANADA, BUT SUBJECT TO REVISION ON SEMI-ANNUAL OR EVEN QUARTERLY BASIS TO TAKE ACCOUNT OF CHANGES IN THESE ALTERNATIVE ENERGY COSTS.

2. IN RESPONSE TO STRESS BY US SIDE ON IMPORTANCE OF A

NARROWING OF DISCRIMINATORY GAP BETWEEN CANADIAN DOMESTIC GAS PRICES AND EXPORT PRICE, CANADIANS SAID GOC INTENDS TO ANNOUNCE WITHIN NEXT FEW WEEKS TWO SEPARATE

17 CENT INCREASES IN DOMESTIC GAS PRICES FOR AUGUST 1 AND FEBRUARY 1. THIS WOULD RESULT IN TOTAL DOMESTIC GAS PRICE INCREASE OF SOME 23 PERCENT, THE SAME RELATIVE INCREASE AS WOULD RESULT FROM A TWO DOLLAR-25 CENT EXPORT PRICE. APPLYING THE SAME PERCENTAGE INCREASE WOULD OF COURSE WIDEN THE GAP IN ABSOLUTE TERMS. GOC OFFICIALS SAID THEY COULD GIVE NO ASSURANCE THAT ANY EXPORT PRICE INCREASE WHICH MIGHT RESULT FROM QUARTERLY OR SEMI-ANNUAL REVIEW UNDER OPTION (B) WOULD BE MEASURED BY INCREASE IN DOMESTIC PRICE.

(3) WE UNDERSTAND THAT GAS PRICE ISSUE IS SCHEDULED TO BE TAKEN UP BY CABINET COMMITTEE ON JUNE 14. THEREFORE, AMBASSADOR IS REQUESTED TO MAKE ANOTHER DEMARCHE TO GOC AT MINISTERIAL LEVEL WITH BOTH EMR AND EXTAFF STRESSING FOLLOWING POINTS;

(A) WE CONTINUE TO SEE NO JUSTIFICATION FOR NEB RECOMMENDED INCREASE TO TWO DOLLAR-25 CENT US. THE FIGURE ITSELF IS BASED ON A NUMBER OF QUESTIONABLE CRITERIA. MOREOVER, WE OBJECT TO THE DECISION TO SHIFT FROM THE CANADIAN TO US DOLLAR AS THE CURRENCY OF DENOMINATION FOR THE EXPORT PRICE. SUCH A SHIFT WOULD TEND TO CREATE THE IMPRESSION THAT THE GOC IS SIMPLY CHARGING ALL THE TRAFFIC WILL BEAR.

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EE(B) WE CONTINUE TO PLACE MAJOR IMPORTANCE ON A NARROWING OF THE GAP BETWEEN DOMESTIC AND EXPORT PRICES. WE NOTE THAT THE NEB RECOMMENDATION OF TWO DOLLARS-25 CENTS WOULD RESULT IN A WIDENING OF THE DISCRIMINATORY GAP BETWEEN DOMESTIC AND EXPORT PRICES IN ABSOLUTE TERMS.

(C) WITH REGARD TO THE SECOND ALTERNATIVE OFFERED BY THE CANADIANS, WE FIND THE TWO DOLLAR-16 CENT US FIGURE MORE REASONABLE, SINCE IT WOULD NARROW THE GAP AND PARTICULARLY SINCE IT ELIMINATES THE ARBITRARY 5 PERCENT PORTION OF THE NEB RECOMMENDED INCREASE RESULTING FROM THE CHANGE IN CURRENCY OF DENOMINATION. HOWEVER, WE ARE NOT WILLING TO AGREE TO QUARTERLY OR SEMI-ANNUAL REVIEW OF THIS PRICE AGAINST THE COST OF ALTERNATIVE ENERGY FOR EASTERN CANADA, ESPECIALLY SINCE THE CANADIANS ARE UNWILLING TO AGREE THAT ANY INCREASES IN THE EXPORT PRICE WOULD BE MATCHED BY EQUIVALENT INCREASES IN DOMESTIC PRICE. MOREOVER, WE ARE CONCERNED BY THE PRECEDENT OF OUR AGREEING THAT THE PRICE OF CANADIAN GAS SHOULD BE INDEXED TO THE COST OF IMPORTED

OIL IN EASTERN CANADA. ALSO, THE POSSIBILITY OF QUARTERLY
OR SEMI-ANNUAL INCREASES IN THE GAS PRICE WOULD INTRODUCE
A FURTHER ELEMENT OF UNCERTAINTY FOR US CUSTOMERS AND
WOULD LIKELY NOT BE COMPATIBLE WITH FPC HEARING AND REVIEW
PROCEDURES. VANCE

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